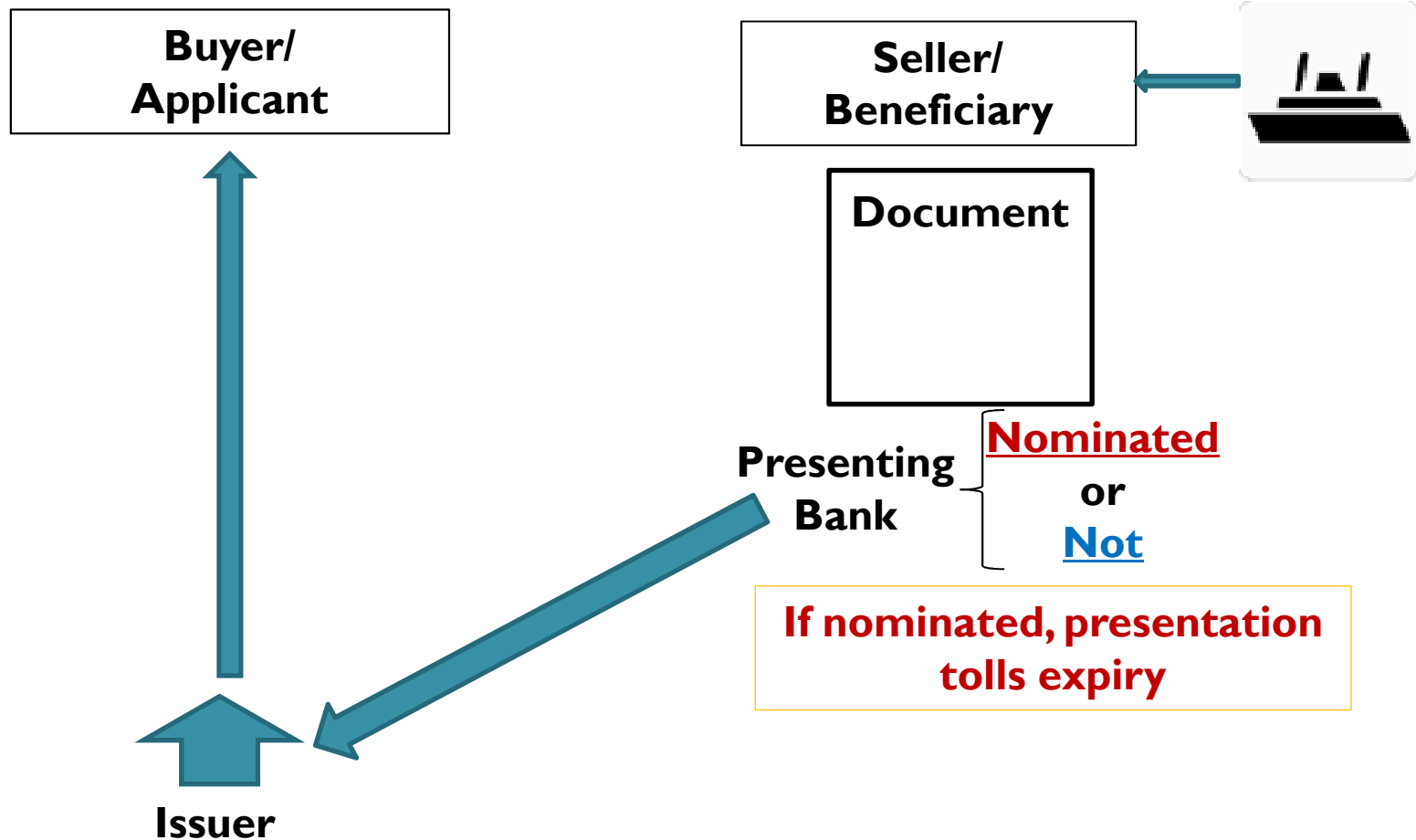




SESSION 3

RED FLAGS & Counter Terrorist Financing

Exercise 6: Presentation of Documents



Presentation of Documents to Confirmer



Invoice

P.O. Box 293

[City] Bangladesh

**2,000 Tea Kettels: (USD 50 @) USD
50,000**

**2,000 Toast Ovens (Electronic
Appliances): (USD@ 70) USD 140,000**

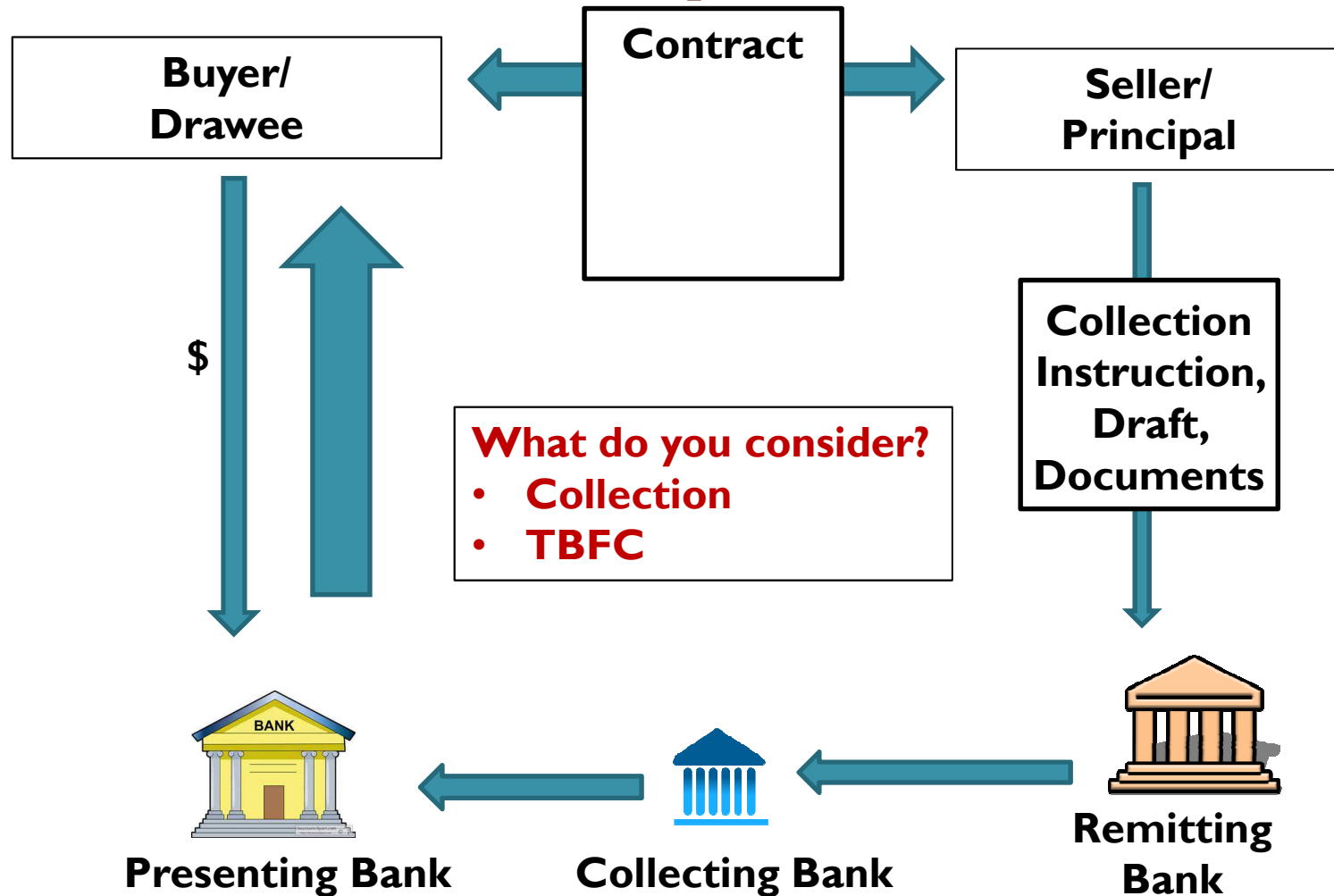
**200 Caterpillar Tractors:
(@USD 150); USD 30,000**

Shipped to

Johannesburg, S.A.

Questions?

Exercise 7: Collection Compliance





Bank Collections

- **Remitting Bank: due diligence on Seller**
- **Appropriate due diligence on Presenting Bank**
- **Presenting Bank: appropriate due diligence on Remitting Bank**
- **Presenting Bank: appropriate due diligence on Buyer**
- **For Higher Risk Parties: Enhanced due diligence**
- **Review: collection instructions & drafts**
- **More?**

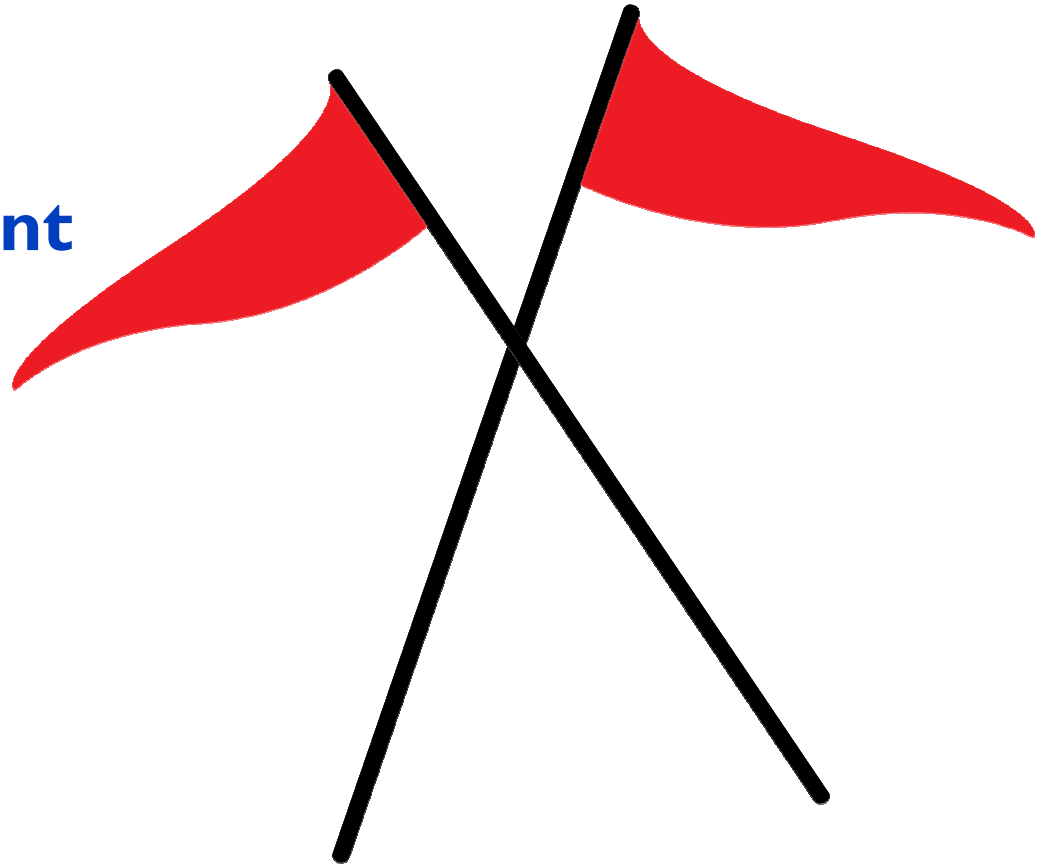


Bank Collections: What are the Risk Indicators?

- **Risks identifiable before the transaction occurs:**
 - **Export/import controls not complied with**
 - **Countries/parties on sanctions lists**
- **Risks identifiable before and after the transaction occurs:**
 - **Anomalies in quantity/price**
 - **Not normal business of party**
 - **Illogical means of payment**
 - **Unexplained third parties**
 - **Attempt to disguise certain countries involves in transaction**

RED FLAGS

- **The Concept**
- **FCA's treatment**
- **BAFT LIST**



Suspicious Trade Activities:

I & 2

1. **Transactions inconsistent with customer's business strategy or profile (e.g., a steel company that starts dealing in paper products) or make no economic sense.**
2. **Customer deviates significantly from its historical pattern of trade activity (in terms of markets, monetary value, frequency of transactions, volume or merchandise type).**



Who would know?

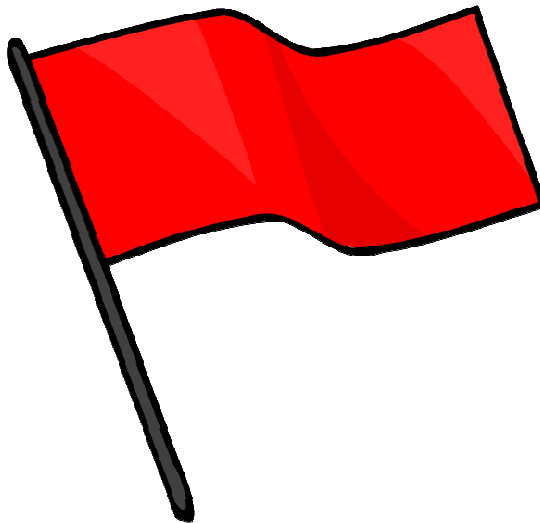
Relationship Manager

But do they look at each transaction?

Suspicious Trade Transactions: 3 - 5

3. Transacting parties appear to be affiliated, conduct business out of a residential address, or provide only a registered agent's address

Fraud?



4. Customer that conducts business in jurisdictions that are at higher risk for money laundering, terrorist financing, or other financial crimes

5. Customer shipping items to, through, or from higher-money-laundering-risk jurisdictions including countries identified by the Financial Action Task Force as “non-cooperative jurisdictions” as regards anti-money laundering regulations

Money laundering risk/ not credit risk

FATF List

Suspicious Trade Transactions 6-8

6. Activities/goods that potentially involve a higher risk of money laundering and other financial crimes including activities/goods that may be subject to export/import restrictions

KYC

7. Obvious over- or underpricing of goods

8. Obvious misrepresentation of quantity of goods shipped

How Know?



Suspicious Transactions 9-11



**IF IT LOOKS
SUSPICIOUS
THEN
IT IS
SUSPICIOUS**

9. Payment terms or tenor are inconsistent with the type of goods

10. Transaction structure and/or shipment terms appear unnecessarily complex or unusual and designed to obscure the true nature of the transaction

11. The L/C contains non-standard clauses or phrases or has unusual characteristics

Suspicious Transactions 12-13

12. L/C frequently significantly amended for extensions, changes to the beneficiary and/or changes to payment location.

13. Trade-related documentation under an L/C or documentary collection appears illogical, altered, fraudulent, or certain documentation is absent that would be expected given the nature of the transaction



Suspicious Trade Transactions 14-16



14. The transaction appears to involve the use of front or shell companies for the purpose of hiding the true parties involved.

15. The bank is approached by a previously unknown party whose identity is not clear, who seems evasive about their identity or connections, or whose references are not convincing, or payment instructions are changed at the last minute.

16. Transaction involves obvious dual-use goods.

Many Banks

**treat all
trade finance
as high risk.**





Enhanced Due Diligence: Review High Risk customer accounts more closely

Information to Obtain

- **Purpose of the account**
- **Source of funds and wealth**
- **Individuals with ownership or control over the account (beneficial owners, signatories, guarantors, etc.)**
- **Financial statements**
- **Banking references**
- **Domicile**
- **Business operations, anticipated volume of currency and total sales, list of major customers and suppliers**
- **Explanations for changes in account activity**
- **Nature of Transaction: Typical?**

Enhanced Checks



- **Ownership & Background of other parties**
- **Info re seller from buyer**
- **Vessel movement**
- **Vessel Name history**
- **External sources re warnings or B/L**
- **Source & dual use**

More Enhanced Checks

- **Look into price**
- **Relationship meetings or visit**
- **Post event checks**



Problems

PLAN B

~~PLAN A~~

- **Isolated?**
- **Technical?**
- **Systemic?**
- **Recurring?**

Determine Cause of Deficiencies in the Compliance Programme ...

- **Management failure to assess or appreciate Compliance risks**
- **Management failure to create program**
- **Disregard of program**
- **Training Failure**
- **Risks have grown faster than program**
- **Policy changes poorly communicated**



"Money Laundering"



- **Making illegally gained proceeds appear legal**
- **Integrating the proceeds of crime into legitimate commerce while masking their origins**

Activities That Need Money Laundering



- **Criminal activities**
 - Primary objective is financial gain
- **Terrorism**
 - Primary objective is to intimidate a population or to compel a government to do or abstain from doing an act
- **Both terrorism and other criminal activities must develop:**
 - Sources of funding
 - Means of laundering those funds

Terrorist Financing



- **Source can be legal funds for illegal uses**
- **As well as illegal funds for illegal uses**
- **Flip traditional notion of Money Laundering**
- **Block and Freeze assets of DT or DTOs**
- **OFAC Sanctions in US**

Illegal Sources of Terrorist Financing

- **Kidnapping**
- **Extortion**
- **Large-scale smuggling**
- **Fraud**
- **Thefts and robberies**
- **Narcotics trafficking**



Legal Sources of Terrorist Financing

- **Community solicitation**
- **Fundraising by charitable or relief organizations**
- **Donations**



- **Government**
- **Government Sponsored**
- **Organizations**

How to Track CTF



- **KYC/CIP**
- **Ongoing:
Automated**
- **Manual: Red
Flags**